

## Message Text

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PAGE 01 PARAMA 00028 062152Z

ACTION ARA-14

INFO OCT-01 EUR-12 ISO-00 GSA-02 SOE-02 AID-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-08 DOE-11 H-01 INR-07

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TO SECSTATE WASHDC 3967

INFO AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

AMEMBASSY PORT OF SPAIN

AMEMBASSY THE HAGUE

C O N F I D E N T I A L PARAMARIBO 0028

E. O. 11652: GDS

TAGS: EMIN, NS

SUBJECT: THE BAUXITE INDUSTRY IN 1977-- ESPORTS UP

SUMMARY: SURINAM'S BAUXITE INDUSTRY--WHICH PRODUCES ALUMINUM AND ALUMINA AS WELL AS BAUXITE-- SUBSTANTIALLY IMPROVED ITS PERFORMANCE IN 1977 AND AT LEAST THE LARGER OF THE TWO MULTINATIONALS CURRENTLY OPERATINAL,SURALCO, LOOKS FORWARD TO AN EVEN BETTER YEAR IN 1978. BAUXITE REMAINS NUMBER ONE IN THE SURINAM ECONOMY AND WILL CONTINUE TO BE A MAJOR FOCUS ON THE GOS AS ITS SEEKS TO DEVELOP ITS NEW BAUXITE RESOURCES AND INCREASE ITS DIRECT CONTROL OVER PRODUCTION LEVELS.

1. ACCORDING TO ITS MANAGING DIRECTOR, PAUL BUSTION, ALCOA'S WHOLLY-OWNED SUBSIDIARY SURINAME ALUMINUM COMPANY (SURALCO) REGARDS 1977 AS ITS BEST YEAR SINCE 1974. ALTHOUGH BUSTION  
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PAGE 02 PARAMA 00028 062152Z

HAS TOLD EMBASSY TOTAL BAUXITE PRODUCTION FOR 1977 WOULD BE SOMEWHAT LESS THAN HALF OF THE TWO-YEAR MINIMUM OF 5.75 MILLION TONS CALLED FOR IN ITS CURRENT AGREEMENT WITH THE SURINAM GOVERNMENT (SURALCO WAS ABOUT 50,000 TONS SHORT ON 1976'S 2.6 MILLION TON REQUIREMENT), BAUXITE AND ALUMINUM SHIPMENTS WERE UP SUBSTANTIALLY IN 1977 WHILE ALUMINA SHIPMENTS WERE NEARLY THE SAME AS IN 1976. ALUMINUM

SHIPMENTS IN FACT EXCEEDED THOSE OF ANY PREVIOUS YEAR BUT EXPORTS OF BAUXITE AND ALUMINA WERE STILL FAR BELOW THEIR PREVIOUS HIGHS.

2. TOTAL SHIPMENTS OF BAUXITE AND ITS DERIVATIVES FOR SURALCO FOR 1977 WERE AS FOLLOWS: (A) BAUXITE : 1.16 MILLION METRIC TONS (UP FROM 0.90 MILLION TONS IN 1976); (B) ALUMINA: 541,000 METRIC TONS (DOWN FROM 560,000 TONS IN 1976); AND (C) ALUMINUM: 57,707 METRIC TONS (UP FROM 46,297 TONS IN 1976).

3. BUSTION IS ALSO QUOTED AS LOOKING FORWARD TO A BETTER YEAR IN 1978, WITH AN OVERALL INCREASE IN EXPORTS OF ABOUT TEN PER CENT AND A SIX PER CENT INCREASE IN ALUMINUM PRODUCTION. IT WAS ALSO RECENTLY ANNOUNCED THAT SURALCO IS FORMALLY NOTIFYING THE GOS THAT IT WISHES TO RESERVE 20,000 HECTARES AS A CONCESSION IN EASTERN SURINAM, AS WAS PROVIDED FOR BY THE TERMS OF THE BROKOPONDO AGREEMENT WHICH HAS BEEN THE BASIC DOCUMENT GOVERNING RELATIONS BETWEEN SURALCO AND THE GOS SINCE ITS SIGNING IN 1959. ESTIMATES OF THE REMAINING RESERVES AT MOENGO, ALSO IN EASTERN SURINAM AND THE SOURCE OF ABOUT TWO-THIRDS OF SURALCO'S BAUXITE, ARE PUBLICLY ESTIMATED TO BE ADEQUATE FOR SURALCO'S NEEDS FOR ANOTHER FIFTEEN TO TWENTY YEARS.

4. IN SPITE OF SURALCO'S IMPROVED PERFORMANCE, IT STILL  
CONFIDENTIAL

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PAGE 03     PARAMA 00028 062152Z

HAS ON ITS HANDS SUBSTANTIAL STOCKPILES OF BOTH ALUMINA AND ALUMINUM WHICH IT HOPES TO REDUCE IN THE COMING YEAR. THIS WILL OF COURSE DEPEND ON THE STRENGTH OF THE WORLD MARKET FOR THESE PRODUCTS SINCE SURALCO'S BAUXITE PRODUCTION IS MORE OR LESS FIXED BY THE MINIMUM PRODUCTION REQUIREMENT SET BY THE GOS. HOWEVER, BARRING MAJOR UPSETS IN THE INDUSTRY, SURALCO SHOULD BE IN REASONABLY GOOD CONDITION TO ENTER TALKS WITH THE GOS ON A NEW PRODUCTION AND BAUXITE LEVY AGREEMENT TO REPLACE THE PRESENT ONE WHICH EXPIRES AT THE END OF 1978. IT IS ANTICIPATED THAT THESE NEGOTIATIONS WILL BEGIN SOMETIME LATE THIS YEAR.

5. FINAL EXPORT FIGURES FOR BILLITON, SURINAM'S "OTHER" BAUXITE COMPANY OWNED BY ROYAL DUTCH SHELL, ARE NOT YET AVAILABLE, ALTHOUGH THE YEAR-END REPORT OF BILLITON'S DIRECTOR NOTES A TOTAL BAUXITE PRODUCTION IN 1977 OF 2.14 MILLION TONS, ABOUT HALF OF WHICH IS SAID TO HAVE BEEN PROCESSED INTO ALUMINA (BILLITON DOES NOT PRODUCE ANY ALUMINUM AND ITS ALUMINA IS PRODUCED IN SURALCO'S PARANAM REFINERY UNDER SPECIAL AGREEMENT). ALUMINA EXPORTS WERE LISTED AT 550,000 METRIC TONS, WHICH WOULD BE NEARLY A NINE PER CENT INCREASE OVER 1976. BAUXITE PRODUCTION

AT THE LEVEL CITED WOULD BE SOMEWHAT BETTER THAN WAS ESTIMATED BY BILLITON MANAGEMENT IN JUNE OF LAST YEAR AFTER AN EXPLOSION IN A SMELTER OF ONE OF ITS ALUMINA CLIENTS JEOPARDIZED ITS CONTRACT WITH THAT CUSTOMER. AT THAT TIME AN ORIGINAL PRODUCTION ESTIMATE OF 2.4 MILLION TONS OF BAUXITE IN 1977 WAS REDUCED TO 2 MILLION TONS, BUT YEAR-END FIGURES NOW SHOW THAT WAS OVERLY PESSIMISTIC. BILLITON, HOWEVER, IS STARTING 1978 WITH ABOUT 100,000 TONS OF ALUMINA NORMALLY COVERED UNDER LONG-TERM CONTRACTS STILL UNSOLD. THIS SITUATION IS ATTRIBUTED TO AN EXCESS SUPPLY OF ALUMINA ON THE WORLD MARKET DUE TO AN OVERSUPPLY OF ALUMINUM AND REDUCED SMELTING CAPACITY RESULTING FROM ENERGY SHORTAGES, PARTICULARLY IN JAPAN.

CONFIDENTIAL

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PAGE 04     PARAMA 00028 062152Z

6. COMMENT: THUS, 1977 MUST BE CONSIDERED A GOOD YEAR FOR SURINAM'S BAUXITE SECTOR WHICH MEANS CONTINUING HIGH REVENUES TO THE GOS FROM THE BAUXITE INDUSTRY. WHEN FINAL FIGURES ARE RELEASED, TOTAL EXPORT FIGURES FOR BAUXITE, ALUMINA, AND ALUMINUM ARE LIKELY TO SHOW INCREASES OVER 1976. SINCE BAUXITE AND ITS DERIVATIVES STILL PROVIDE ABOUT 85 PERCENT OF SURINAM'S FOREIGN EXCHANGE EARNINGS, THIS FACT WILL BE CONSIDERED IMPORTANT IN AN ECONOMY WHICH DURING THE SAME YEAR SAW A DECLINE IN FOREIGN EXCHANGE RESERVES AND IS PLAGUED BY A CHRONIC CURRENT ACCOUNT DEFICIT. BAUXITE THUS RETAINS--IF NOT INCREASES-- ITS ROLE AS THE MAINSTAY OF SURINAM'S ECONOMY AND RELATIVELY HIGH STANDARD OF LIVING, AND THE BAUXITE COMPANIES CONTINUE TO BE THE DOMINANT ECONOMIC FORCES IN SURINAM. ONLY LARGE FLOWS OF NETHERLANDS DEVELOPMENT ASSISTANCE (WHICH REPORTEDLY TOTALLED ABOUT \$75 MILLION IN 1977) APPROACH THE IMPACT GENERATED BY THE BAUXITE INDUSTRY.

7. PRESUMABLY THE IMPROVED PERFORMANCE OF THE BAUXITE INDUSTRY WILL BE AN ADDITIONAL INCENTIVE TO THE GOS TO PRESS AHEAD WITH ITS PLANS TO DEVELOP ITS RESERVES IN THE BAKHUIS MOUNTAINS OF WESTERN SURINAM, THEREBY EXPANDING ITS DIRECT CONTROL OVER BAUXITE PRODUCTION LEVELS. GRASSALCO, A GOS-OWNED COMPANY, IS TASKED WITH THIS PROJECT WHICH IT HOPES WILL TURN OUT ITS FIRST BAUXITE IN 1979. THE COMPANY'S DIRECTOR RECENTLY TRAVELLED TO THE U.S. TO DISCUSS REPORTED INTEREST ON THE PART OF FOREIGN COMPANIES INCLUDING AMERICAN, JAPANESE, AND SAUDI ARABIAN CONCERNS IN PARTICIPATING IN THIS DEVELOPMENT. THE EMBASSY CONTINUES TO DOUBT WHETHER PLANS WILL MOVE AHEAD AS RAPIDLY AS THEIR OPTIMISTIC PROMOTERS FORECAST, BUT A SIGNIFICANT SHARE OF THE ATTENTION AND RESOURCES OF THE GOS WILL CONTINUE TO GO INTO THE DEVELOPMENT OF SURINAM'S WESTERN REGION INCLUDING

CONFIDENTIAL

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PAGE 05 PARAMA 00028 062152Z

THE BAUXITE RESOURCES LOCATED THERE. WE DO NOT FORESEE,  
HOWEVER, A RETURN ANY TIME IN THE NEAR FUTURE TO THE  
NEARLY 7 MILLION TON BAUXITE LEVELS WHICH  
CHARACTERIZED THE BAUXITE INDUSTRY'S PEAK YEARS IN  
1971-74.  
ZURHELLEN

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## Message Attributes

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